

INTRODUCTORY SECTION



December 15, 2011

TO THE CITIZENS, GOVERNOR AND MEMBERS OF THE IOWA GENERAL ASSEMBLY

In accordance with Iowa Code Section 8A.502(8), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Iowa for the fiscal year ended June 30, 2011. As required by State statute, this report has been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB).

The Department of Administrative Services and the Department of Management are responsible for both the accuracy of the presented data and the completeness and fairness of the presentation. We believe the information presented is accurate in all material respects and the necessary disclosures have been made in order to enable the reader to understand the State's financial activity.

The State's system of internal controls over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded against unauthorized use or disposition and financial records from all appropriate sources are reliable for preparing financial statements and maintaining accountability. The concept of reasonable assurance recognizes the cost of internal controls should not exceed the benefits likely to be derived from their use. To monitor the adequacy of internal controls, the Auditor of State reviews internal control procedures as an integral part of departmental audits.

The Auditor of State is required by Chapter 11 of the Code of Iowa to audit annually all departments of the State. The accompanying basic financial statements of the State of Iowa have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. His report appears elsewhere herein. In addition, the Auditor of State conducts a single audit under the requirements set forth in the Single Audit Act of 1984, the Single Audit Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. That report is issued separately.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

The State of Iowa was admitted into the Union as the 29th state in 1846. Iowa is a midsize state with a mid-continent location. It covers 56,275 square miles, making it the 23rd largest state in the United States. The Mississippi River carves out Iowa's eastern border, while the flow of the Missouri and Big Sioux Rivers form the western border. Iowa has a population of 3.0 million.

In Iowa, government power is distributed among three branches. The Legislative branch creates laws that establish policies and programs; the Executive branch carries out the policies and programs created in the laws and the Judicial branch resolves any conflicts arising from interpretation or application of the laws. The Executive branch agencies are the Governor, Lieutenant Governor, Secretary of State, Treasurer of State, Secretary of Agriculture, Attorney General and Auditor of State, as well as 26 agencies lead by appointed State officials. The Legislative branch is comprised of two houses, a 50 member Senate and a 100 member House of Representatives. The Judicial branch is presided over by the Iowa Supreme Court, which is led by the Chief Justice of the Supreme Court.

The State provides a range of services such as education, health and human services, highway maintenance and construction, natural resources and agriculture management, law enforcement, public safety and economic development programs.

This report includes all of the fund types, departments and agencies of the State, as well as the boards, commissions, authorities and universities for which the State is financially accountable. Component units also included in the report are the Iowa Finance Authority, Iowa Agricultural Development Authority, Iowa State Fair Authority, Iowa Lottery Authority and University Foundations. The reader is directed to Note 1.B in the Notes to the Financial Statements for a more complete description of the factors used to define the reporting entity.

State Budget and Budgetary Controls. The annual budgetary process serves as the foundation for the State's financial planning and control. Each year state departments submit budget requests to the Governor's Office by October 1. The State's budget is prepared by the Governor on an annual basis and is required to be submitted, along with proposed appropriation bills, to the General Assembly by the first of February prior to the new fiscal year. The General Assembly approves appropriation bills which establish spending authority for the upcoming fiscal year. The Governor has the ability to approve, veto or item veto appropriation bills as they are presented to him.

Departments may request revisions to allotments, appropriation transfers, or supplemental appropriations. The Department of Management approves revised allotments within an appropriation, subject to the Governor's review. The Governor and the Department of Management approve all appropriation transfers. The General Assembly and the Governor act on supplemental appropriation bills in a manner similar to original appropriations. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the state treasury, unless otherwise provided.

All claims presented for payment must be approved by the appropriate department. The expenditure must be for a purpose intended by law and a sufficient existing and unexpended appropriation balance must be available. Budgetary controls are incorporated into State accounting systems. The annual budget of the State is established through separate appropriations to individual departments for specific purposes, special outlays and/or operating expenditures. Budgetary control is essentially maintained at the departmental level except for certain grant and aid programs where control is maintained at the program level.

ECONOMIC CONDITION AND OUTLOOK

National Economic Outlook 2011-2012

During fiscal year 2011, real gross domestic product showed growth of 1.6 percent, reflecting the reduction of the federal fiscal stimulation of additional programs from the federal government and the overall slow rebound the national economy is experiencing. According to Moody's Analytics, projections for real gross domestic product growth in fiscal year 2012 is a slightly higher 2.5 percent.

Job growth has been anemic and is estimated not to improve much over the next 12 months. Employment has been on a decline in the United States since the end of calendar year 2007. During fiscal year 2011, only 1,066,000 jobs were gained nationally, compared to fiscal year 2010 when 919,000 jobs were lost nationally, and projections provided by Moody's Analytics for fiscal year 2012 are for even slower growth with only 800,000 projected jobs gained.

State and Local Economy

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. In calendar year 2010, 17.8 percent of the state's gross domestic product was in manufacturing, down from 20.6 percent 10 years ago. Finance and insurance has grown over the past 10 years from 10.3 percent of the total gross domestic product to 13.8 percent. With the growth in renewable fuels processing in Iowa, higher grain and livestock prices, agriculture has grown from 3.1 percent in 2000 to 5.9 percent in 2010.

Gross Domestic Product. The gross domestic product is the U.S. Commerce Department's measure of the value of all goods and services produced in Iowa each year. In calendar year 2010, Iowa's real gross domestic product increased 3.1 percent ranking Iowa 13th highest in growth rate nationally. The United States average growth during the calendar year was 2.6 percent.

Personal Income. Personal income, as reported by the U.S. Department of Commerce, for the nation increased 5.4 percent during fiscal year 2011. Iowa's personal income rose 6.2 percent during the fiscal year. For the second quarter calendar year 2011, Iowa's personal income rose 1.5%, ranking Iowa seventh nationally for personal income growth.

Employment. Over the past 10 years, Iowa's unemployment rate has been between one and three percentage points below the national average. As of June 2011, the state unemployment rate stood at 6.0 percent, while the national average stood at 9.3 percent. Following the national trend, unemployment at the state level has dropped during fiscal year 2011, from 6.2 percent in July 2010 to 6.0 percent in June 2011. Nonfarm employment on a seasonally adjusted basis increased a net 9,900 jobs with 6,800 more people in the workforce. During fiscal year 2011, the government sector lost 8,500 jobs, with financial activities losing 2,400 jobs and other services 2,000 jobs. These losses were offset by job growth in the leisure and hospitality section adding 7,400 jobs, trade and transportation adding 7,000 jobs and manufacturing adding 4,100 jobs. The rest of the economic sectors have smaller job changes.

Exports. The rise in exporting industries has been an important factor in Iowa's economic growth since the 1990's. Growth in exports of industrial machinery, instruments and measurement devices, electronics, specialized transportation equipment, chemicals and pharmaceuticals, and processed food

products have helped diversify Iowa's economy. In calendar year 2010, Iowa's exports increased 20.3 percent, after declining 25.4 percent in calendar year 2009.

Canada continues to maintain the top country for Iowa's exports, with Mexico being Iowa's second best trading partner. In 2010, Iowa's agricultural export value was second to only California nationally, being first in soybean, feed grain, and live animals and meat exports, in the nation.

Agriculture. The agricultural sector continues to be a strong presence in Iowa. Approximately 93 percent of the land area in the state is in farms. The U.S. Department of Agriculture reported Iowa led the nation in corn, soybeans, hogs, and egg production and was second in red meat production in 2010.

Farmland Values. The Federal Reserve Bank of Chicago, in its most recent public release, stated that farmland values for the Seventh Federal Reserve District (Chicago) had, for the third quarter, the largest jump in value year-over-year in three decades at 25 percent. Increases in farmland values in Iowa had lead the district, with a year-over-year increase of 31 percent for the period October 1, 2010 to October 1, 2011. Bankers responding to the survey sent out by the Chicago Federal Reserve Bank thought that land values will continue to rise during the last quarter of calendar year 2011.

Manufacturing. Iowa's manufacturing employment dropped to an average of 200,100 for 2010, down from the 2009 level of 202,800. During calendar year 2010, durable goods products accounted for about 57.8 percent of manufacturing employment.

Financial Policies

The Governor and General Assembly have statutory responsibility to balance the budget.

- Spending is limited to 99.0 percent of adjusted revenues, 95.0 percent of any new revenue implemented in a fiscal year, and any carry-over from the previous year.
- The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference, or the spring estimate if it is lower, as a basis to determine the General Fund budget for the following year.
- Two reserve funds have been created: the Cash Reserve Fund and the Economic Emergency Fund. Expenditures from these funds are limited by statute for nonrecurring, emergency expenditures.

MAJOR INITIATIVES AND ISSUES

Iowa Partnership for Economic Progress. During the 2011 session, Governor Branstad proposed replacing the Iowa Department of Economic Development with the Iowa Partnership for Economic Progress (IPEP). This is to be a public-private partnership tasked with promoting and marketing Iowa to attract new investments and jobs. IPEP will be governed by an independent board of directors with the new entity benefiting from a significant amount of increased flexibility and allow the state-driven economic development efforts to benefit from the energy of public-private co-operation.

The IPEP board, created by Executive Order 75, will serve as the umbrella organization for the public-private partnership developed by the Governor and Legislature during the session through HF 590. The IPEP board is tasked with developing a comprehensive economic development strategy that will be

carried out jointly by the newly created Iowa Economic Development Authority (public) and the Iowa Innovation Corporation (private) in HF 590. The IPEP board will be co-chaired by the Governor and Lt. Governor.

AWARDS AND ACKNOWLEDGMENTS

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governments that publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

The State of Iowa received this prestigious award for its Comprehensive Annual Financial Report (CAFR) for sixteen consecutive years, fiscal years 1993 through 2008. We believe our fiscal year 2009 and 2010 reports continued to meet the Certificate of Achievement Program's (Program) requirements; however, the Auditor of State issued qualified audit opinions for both the 2009 and 2010 CAFRs based on scope limitations, as he did not audit all material aspects of the State's financial statements. An unqualified audit opinion is one of the requirements of the Program and, consequently, the fiscal year 2009 and 2010 CAFRs were ineligible for the certificate. We believe the fiscal year 2011 comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for the certificate.

Acknowledgment. The preparation of this report on a timely basis requires the collective efforts of numerous finance personnel throughout the State and is made possible only with the cooperation and support of the Executive, Legislative and Judicial branch agencies, universities and component units of the State.

This report could not have been accomplished without the professionalism and dedication of the staff in the Department of Management, the State Accounting Enterprise within the Department of Administrative Services, the Auditor of State's Office, and the financial and management personnel throughout State government.

This report, issued for the twenty-third consecutive year, continues our commitment to the citizens of the State of Iowa, the Governor, the Legislature and the financial community, to maintain our financial statements in conformance with the highest standards of financial accountability.

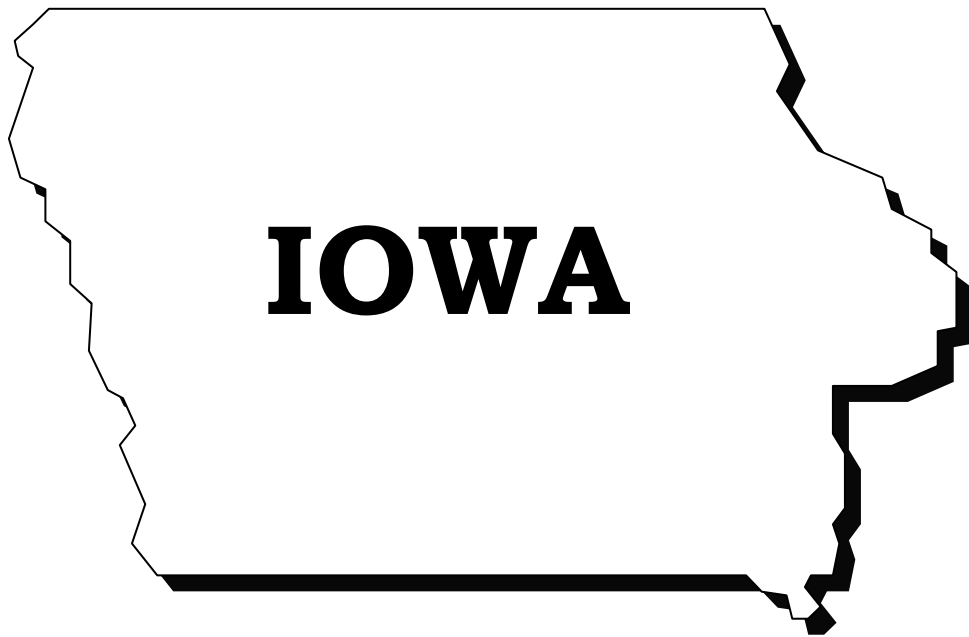
Respectfully submitted,



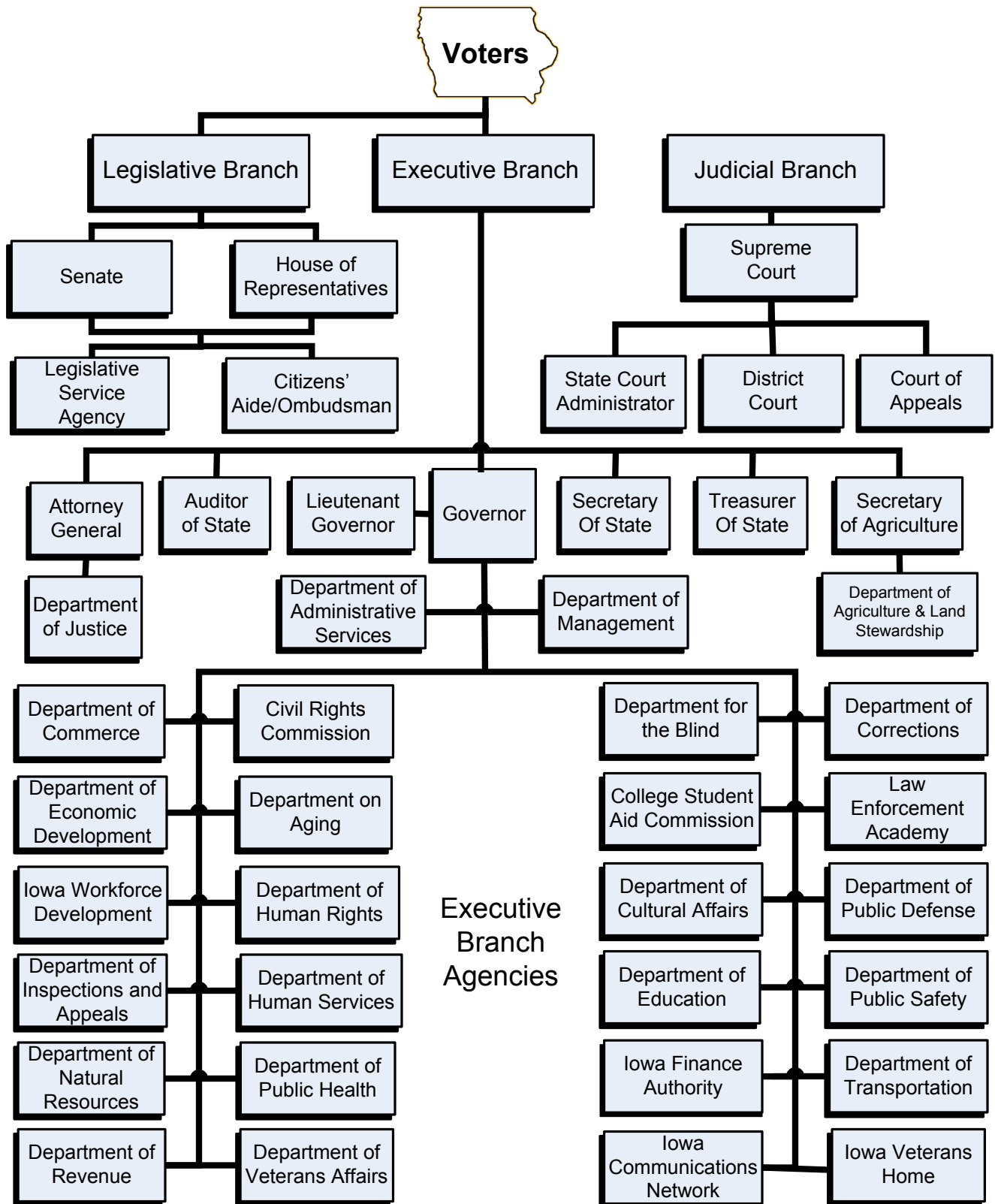
Mike Carroll, Director
Department of Administrative Services



Dave Roederer, Director
Department of Management



State of Iowa Organizational Chart



Prepared for the Fiscal Year 2011 Comprehensive Annual Financial Report

Principal Officials

Elected Officials

GOVERNOR	-	Terry E. Branstad
LIEUTENANT GOVERNOR	-	Kimberly K. Reynolds
SECRETARY OF STATE	-	Matt Schultz
AUDITOR OF STATE	-	David A. Vaudt
TREASURER OF STATE	-	Michael L. Fitzgerald
SECRETARY OF AGRICULTURE	-	William H. Northey
ATTORNEY GENERAL	-	Thomas J. Miller

Legislative Branch

PRESIDENT OF THE SENATE	-	John P. Kibbie
SPEAKER OF THE HOUSE OF REPRESENTATIVES	-	Kraig M. Paulsen

Judicial Branch

CHIEF JUSTICE OF THE SUPREME COURT	-	Mark S. Cady
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